

CONCEPTS & CASES

# Strategic Management

COMPETITIVENESS & GLOBALIZATION



Hitt, Ireland & Hoskisson

11e

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**Strategic Management: Competitiveness & Globalization: Concepts and Cases, Eleventh Edition**

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WCN: 02-200-203

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Library of Congress Control Number: 2013951199

ISBN-13: 978-1-285-42517-7

ISBN-10: 1-285-42517-0

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*With each edition of this book, our goal has been to develop an effective learning tool for students and an effective teaching tool for instructors. Accordingly, we dedicate this 11th edition to all students and instructors past and present who have used or currently use this book. We sincerely hope that it proves to be of value as you learn about and successfully use the strategic management process.*

—MICHAEL A. HITT, R. DUANE IRELAND, ROBERT E. HOSKISSON

# Brief Contents

Preface, xv

About the Authors, xxii

## **Part 1: Strategic Management Inputs**

1. Strategic Management and Strategic Competitiveness, 2
2. The External Environment: Opportunities, Threats, Industry Competition, and Competitor Analysis, 36
3. The Internal Organization: Resources, Capabilities, Core Competencies, and Competitive Advantages, 72

## **Part 2: Strategic Actions: Strategy Formulation**

4. Business-Level Strategy, 102
5. Competitive Rivalry and Competitive Dynamics, 134
6. Corporate-Level Strategy, 164
7. Merger and Acquisition Strategies, 192
8. International Strategy, 226
9. Cooperative Strategy, 262

## **Part 3: Strategic Actions: Strategy Implementation**

10. Corporate Governance, 294
11. Organizational Structure and Controls, 328
12. Strategic Leadership, 368
13. Strategic Entrepreneurship, 398

## **Part 4: Cases**

Name Index, I-1

Company Index, I-17

Subject Index, I-21



# Contents

Preface xv  
About the Authors xxii

## Part 1: Strategic Management Inputs

### 1: Strategic Management and Strategic Competitiveness 2



#### Opening Case: The Global Impact of the Golden Arches 3

- 1-1 The Competitive Landscape 7
  - 1-1a The Global Economy 8
    - Strategic Focus:** Starbucks is a New Economy Multinational 9
    - The March of Globalization 10
  - 1-1b Technology and Technological Changes 11
    - Technology Diffusion and Disruptive Technologies 11
    - The Information Age 12
    - Increasing Knowledge Intensity 13
- 1-2 The I/O Model of Above-Average Returns 14
  - Strategic Focus:** The Airlines Industry Exemplifies the I/O Model Imitation and Poor Performance 16
- 1-3 The Resource-Based Model of Above-Average Returns 17
- 1-4 Vision and Mission 19

- 1-4a Vision 19
- 1-4b Mission 19
- 1-5 Stakeholders 20
  - 1-5a Classifications of Stakeholders 21
    - Capital Market Stakeholders 22
    - Product Market Stakeholders 22
    - Organizational Stakeholders 23
- 1-6 Strategic Leaders 23
  - 1-6a The Work of Effective Strategic Leaders 24
  - 1-6b Predicting Outcomes of Strategic Decisions: Profit Pools 25
- 1-7 The Strategic Management Process 26
  - Summary 27 • Review Questions 28 • Experiential Exercises 28 • Video Case 29 • Notes 30

## 2: The External Environment: Opportunities, Threats, Industry Competition, and Competitor Analysis 36

### Opening Case: The Coca-Cola Co. and PepsiCo: Rivals Competing in a Challenging Environment 37

- 2-1 The General, Industry, and Competitor Environments 38
  - 2-2 External Environmental Analysis 40
    - 2-2a Scanning 41
    - 2-2b Monitoring 42
    - 2-2c Forecasting 42
    - 2-2d Assessing 43
  - 2-3 Segments of the General Environment 43
    - 2-3a The Demographic Segment 43
      - Population Size 43
      - Age Structure 44
      - Geographic Distribution 44
      - Ethnic Mix 45
      - Income Distribution 45
    - 2-3b The Economic Segment 46
    - 2-3c The Political/Legal Segment 46
    - 2-3d The Sociocultural Segment 47
    - 2-3e The Technological Segment 48
    - 2-3f The Global Segment 49
    - 2-3g The Physical Environment Segment 50
      - Strategic Focus:** *The Informal Economy: What It Is and Why It Is Important* 51
  - 2-4 Industry Environment Analysis 52
    - 2-4a Threat of New Entrants 53
      - Barriers to Entry 53
      - Expected Retaliation 55
    - 2-4b Bargaining Power of Suppliers 56
    - 2-4c Bargaining Power of Buyers 56
    - 2-4d Threat of Substitute Products 57
    - 2-4e Intensity of Rivalry among Competitors 57
      - Numerous or Equally Balanced Competitors 57
      - Slow Industry Growth 58
      - High Fixed Costs or High Storage Costs 58
      - Lack of Differentiation or Low Switching Costs 58
      - High Strategic Stakes 58
      - High Exit Barriers 59
  - 2-5 Interpreting Industry Analyses 59
  - 2-6 Strategic Groups 60
  - 2-7 Competitor Analysis 60
    - Strategic Focus:** *German Performance/Luxury Cars: If You Have Seen One, Have You Seen Them All?* 61
  - 2-8 Ethical Considerations 63
- Summary 64 • Review Questions 65 • Experiential Exercises 65 • Video Case 66 • Notes 66

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### 3: The Internal Organization: Resources, Capabilities, Core Competencies, and Competitive Advantages 72

#### Opening Case: Zara: The Capabilities behind the Spanish “Fast Fashion” Retail Giant 73

- 3-1 Analyzing the Internal Organization 75
    - 3-1a The Context of Internal Analysis 75
    - 3-1b Creating Value 77
  - 3-1c The Challenge of Analyzing the Internal Organization 77
  - 3-2 Resources, Capabilities, and Core Competencies 79
    - 3-2a Resources 79
      - Tangible Resources 80
        - Strategic Focus:** *Emphasis on Value Creation through Tangible (Kinder Morgan) and Intangible (Coca-Cola Inc.) Resources 81*
        - Intangible Resources 82
    - 3-2b Capabilities 83
    - 3-2c Core Competencies 84
      - Strategic Focus:** *Samsung Beats Apple in Smartphone Sales by Its Imitation Capability 85*
  - 3-3 Building Core Competencies 86
    - 3-3a The Four Criteria of Sustainable Competitive Advantage 86
      - Valuable 87
      - Rare 87
      - Costly to Imitate 87
      - Nonsubstitutable 88
    - 3-3b Value Chain Analysis 89
  - 3-4 Outsourcing 91
  - 3-5 Competencies, Strengths, Weaknesses, and Strategic Decisions 93
- Summary 94 • Review Questions 94 • Experiential Exercises 95 • Video Case 96 • Notes 96



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## Part 2: Strategic Actions: Strategy Formulation

### 4: Business-Level Strategy 102

#### Opening Case: Is J.C. Penney Killing Itself with a Failed Strategy? 103

- 4-1 Customers: Their Relationship with Business-Level Strategies 105
  - 4-1a Effectively Managing Relationships with Customers 106
  - 4-1b Reach, Richness, and Affiliation 106
- 4-1c Who: Determining the Customers to Serve 107
- 4-1d What: Determining Which Customer Needs to Satisfy 108
- 4-1e How: Determining Core Competencies Necessary to Satisfy Customer Needs 108
- 4-2 The Purpose of a Business-Level Strategy 109
  - Strategic Focus:** *Continuously Innovating to Satisfy Customers’ Needs 110*

- 4-3 Types of Business-Level Strategies 111
- 4-3a Cost Leadership Strategy 113
  - Rivalry with Existing Competitors 114
  - Bargaining Power of Buyers (Customers) 114
  - Bargaining Power of Suppliers 115
  - Potential Entrants 116
  - Product Substitutes 116
  - Competitive Risks of the Cost Leadership Strategy 117
- 4-3b Differentiation Strategy 117
  - Rivalry with Existing Competitors 118
  - Bargaining Power of Buyers (Customers) 118
  - Strategic Focus:** *Apple vs. Samsung: Apple Differentiates and Samsung Imperfectly Imitates* 119
  - Bargaining Power of Suppliers 119
  - Potential Entrants 120
  - Product Substitutes 121
  - Competitive Risks of the Differentiation Strategy 121
- 4-3c Focus Strategies 121
  - Focused Cost Leadership Strategy 122
  - Focused Differentiation Strategy 122
  - Competitive Risks of Focus Strategies 123
- 4-3d Integrated Cost Leadership/Differentiation Strategy 123
  - Flexible Manufacturing Systems 124
  - Information Networks 125
  - Total Quality Management Systems 125
  - Competitive Risks of the Integrated Cost Leadership/Differentiation Strategy 126
  - Summary 126 • Review Questions 127 • Experiential Exercises 127 • Video Case 128 • Notes 129

## 5: Competitive Rivalry and Competitive Dynamics 134

### Opening Case: Tesco PLC: A Case Study in Competitive Behavior 135

**Strategic Focus:** *Competitive Rivalry in Fast Fashion: A Constant Stream of Actions and Responses* 137

- 5-1 A Model of Competitive Rivalry 139
- 5-2 Competitor Analysis 140
  - 5-2a Market Commonality 141
  - 5-2b Resource Similarity 141
    - Strategic Focus:** *FedEx and United Parcel Service (UPS): Maintaining Success While Competing Aggressively* 143
- 5-3 Drivers of Competitive Behavior 144
- 5-4 Competitive Rivalry 145
  - 5-4a Strategic and Tactical Actions 145
  - 5-5 Likelihood of Attack 146
    - 5-5a First-Mover Benefits 146
    - 5-5b Organizational Size 148
    - 5-5c Quality 149
  - 5-6 Likelihood of Response 150





- 5-6a Type of Competitive Action 150
- 5-6b Actor's Reputation 151
- 5-6c Market Dependence 152
- 5-7 Competitive Dynamics 152
- 5-7a Slow-Cycle Markets 152
- 5-7b Fast-Cycle Markets 154
- 5-7c Standard-Cycle Markets 155
- Summary 156 • Review Questions 157 • Experiential Exercises 157 • Video Case 158 • Notes 159



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## 6: Corporate-level Strategy 164

### Opening Case: General Electric: The Classic Diversified Firm 165

- 6-1 Levels of Diversification 167
  - 6-1a Low Levels of Diversification 167
    - Strategic Focus:** *Sany's Highly Related Core Businesses* 169
  - 6-1b Moderate and High Levels of Diversification 170
- 6-2 Reasons for Diversification 171
  - 6-3 Value-Creating Diversification: Related Constrained and Related Linked Diversification 172
    - 6-3a Operational Relatedness: Sharing Activities 173
    - 6-3b Corporate Relatedness: Transferring of Core Competencies 173
    - 6-3c Market Power 174
      - Strategic Focus:** *Ericsson's Substantial Market Power* 175
    - 6-3d Simultaneous Operational Relatedness and Corporate Relatedness 176
  - 6-4 Unrelated Diversification 177
    - 6-4a Efficient Internal Capital Market Allocation 177
    - 6-4b Restructuring of Assets 179
  - 6-5 Value-Neutral Diversification: Incentives and Resources 179
    - 6-5a Incentives to Diversify 180
      - Antitrust Regulation and Tax Laws 180
      - Low Performance 181
      - Uncertain Future Cash Flows 181
      - Synergy and Firm Risk Reduction 182
    - 6-5b Resources and Diversification 183
  - 6-6 Value-Reducing Diversification: Managerial Motives to Diversify 184
- Summary 186 • Review Questions 186 • Experiential Exercises 186 • Video Case 187 • Notes 188



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## 7: Merger and Acquisition Strategies 192

### Opening Case: Strategic Acquisitions and Accelerated Integration of Those Acquisitions Are a Vital Capability of Cisco Systems 193

- 7-1 The Popularity of Merger and Acquisition Strategies 195
  - 7-1a Mergers, Acquisitions, and Takeovers: What Are the Differences? 196
- 7-2 Reasons for Acquisitions 197

- 7-2a Increased Market Power 197
    - Horizontal Acquisitions 197
    - Vertical Acquisitions 197
    - Related Acquisitions 198
  - 7-2b Overcoming Entry Barriers 198
    - Cross-Border Acquisitions 199
    - Strategic Focus:** *Cross-Border Acquisitions by Firms from Emerging Economies: Leveraging Resources to Gain a Larger Global Footprint and Market Power* 200
  - 7-2c Cost of New Product Development and Increased Speed to Market 201
  - 7-2d Lower Risk Compared to Developing New Products 202
  - 7-2e Increased Diversification 202
  - 7-2f Reshaping the Firm's Competitive Scope 203
  - 7-2g Learning and Developing New Capabilities 203
  - 7-3 Problems in Achieving Acquisition Success 203
    - 7-3a Integration Difficulties 205
    - 7-3b Inadequate Evaluation of Target 206
    - 7-3c Large or Extraordinary Debt 206
    - 7-3d Inability to Achieve Synergy 207
    - 7-3e Too Much Diversification 208
    - 7-3f Managers Overly Focused on Acquisitions 208
    - 7-3g Too Large 209
  - 7-4 Effective Acquisitions 210
  - 7-5 Restructuring 212
    - 7-5a Downsizing 212
    - 7-5b Downscoping 213
    - 7-5c Leveraged Buyouts 213
    - Strategic Focus:** *Strategic Positioning of Private Equity Buyout Firms (General Partners)* 214
  - 7-5d Restructuring Outcomes 217
- Summary 218 • Review Questions 219 • Experiential Exercises 219 • Video Case 220 • Notes 220

## 8: International Strategy 226

### Opening Case: An International Strategy Powers ABB's Future 227

- 8-1 Identifying International Opportunities 229
  - 8-1a Incentives to Use International Strategy 229
  - 8-1b Three Basic Benefits of International Strategy 231
    - Increased Market Size 231
    - Economies of Scale and Learning 232
    - Location Advantages 232
- 8-2 International Strategies 233
  - 8-2a International Business-Level Strategy 233
  - 8-2b International Corporate-Level Strategy 236
    - Multidomestic Strategy 236
    - Global Strategy 237
    - Transnational Strategy 238
    - Strategic Focus:** *Mondelez International: A Global Leader in Snack Foods Markets* 239



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8-3	Environmental Trends	240
8-3a	Liability of Foreignness	240
8-3b	Regionalization	241
8-4	Choice of International Entry Mode	242
8-4a	Exporting	243
8-4b	Licensing	243
8-4c	Strategic Alliances	244
8-4d	Acquisitions	245
8-4e	New Wholly Owned Subsidiary	246
8-4f	Dynamics of Mode of Entry	247
	<b>Strategic Focus: Mexico's FEMSA: Building its International Prowess</b>	248
8-5	Risks in an International Environment	249
8-5a	Political Risks	249
8-5b	Economic Risks	250
8-6	Strategic Competitiveness Outcomes	250
8-6a	International Diversification and Returns	251
8-6b	Enhanced Innovation	251
8-7	The Challenge of International Strategies	252
8-7a	Complexity of Managing International Strategies	252
8-7b	Limits to International Expansion	253
	Summary	254
	Review Questions	255
	Experiential Exercises	255
	Video Case	256
	Notes	257



## 9: Cooperative Strategy 262

### Opening Case: Alliance Formation, Both Globally and Locally, in the Global Automobile Industry 263

9-1	Strategic Alliances as a Primary Type of Cooperative Strategy	265
9-1a	Types of Major Strategic Alliances	266
9-1b	Reasons Firms Develop Strategic Alliances	267
	Slow-Cycle Markets	268
	Fast-Cycle Markets	269
	Standard-Cycle Markets	270
9-2	Business-Level Cooperative Strategy	271
9-2a	Complementary Strategic Alliances	271
	Vertical Complementary Strategic Alliance	271
	Horizontal Complementary Strategic Alliance	273
9-2b	Competition Response Strategy	273
9-2c	Uncertainty-Reducing Strategy	274
9-2d	Competition-Reducing Strategy	274
9-2e	Assessing Business-Level Cooperative Strategies	275
9-3	Corporate-Level Cooperative Strategy	276
9-3a	Diversifying Strategic Alliance	276
	<b>Strategic Focus: Samsung Electric Is Using Diversifying Alliances to Reduce Its Dependence on Google's Android Operating System</b>	277
9-3b	Synergistic Strategic Alliance	278

- 9-3c Franchising 278
- 9-3d Assessing Corporate-Level Cooperative Strategies 279
- 9-4 International Cooperative Strategy 279
- 9-5 Network Cooperative Strategy 280
- 9-5a Alliance Network Types 281
  - Strategic Focus:** *Industrial Clusters: Geographic Centers for Collaborative Partnering* 282
- 9-6 Competitive Risks with Cooperative Strategies 284
- 9-7 Managing Cooperative Strategies 285
- Summary 287 • Review Questions 287 • Experiential Exercises 288 • Video Case 288 • Notes 289

## Part 3: Strategic Actions: Strategy Implementation

### 10: Corporate Governance 294

#### Opening Case: The Imperial CEO, JPMorgan Chase's Jamie Dimon: Is It the End of Corporate Governance? 295

- 10-1 Separation of Ownership and Managerial Control 297
  - 10-1a Agency Relationships 299
  - 10-1b Product Diversification as an Example of an Agency Problem 300
  - 10-1c Agency Costs and Governance Mechanisms 302
- 10-2 Ownership Concentration 303
  - 10-2a The Increasing Influence of Institutional Owners 304
- 10-3 Board of Directors 305
  - 10-3a Enhancing the Effectiveness of the Board of Directors 307
  - 10-3b Executive Compensation 308
  - 10-3c The Effectiveness of Executive Compensation 309
    - Strategic Focus:** *CEO Pay and Performance: Board Revolution at Citigroup* 310
- 10-4 Market for Corporate Control 311
  - 10-4a Managerial Defense Tactics 312
    - Strategic Focus:** *Rewarding Top Executives of One of the Worst-Performing Food Companies in the World: The Chinese Takeover of Smithfield Foods* 314
- 10-5 International Corporate Governance 315
  - 10-5a Corporate Governance in Germany and Japan 315
  - 10-5b Corporate Governance in China 317
- 10-6 Governance Mechanisms and Ethical Behavior 317
- Summary 318 • Review Questions 319 • Experiential Exercises 320 • Video Case 321 • Notes 321

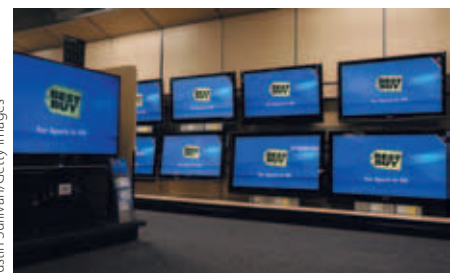


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### 11: Organizational Structure and Controls 328

#### Opening Case: Big-Box Retailers Struggle to Change Their Strategies and Structures in the Face of Online Competition 329

- 11-1 Organizational Structure and Controls 332
  - 11-1a Organizational Structure 332
  - 11-1b Organizational Controls 334
- 11-2 Relationships between Strategy and Structure 335
- 11-3 Evolutionary Patterns of Strategy and Organizational Structure 336



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- 11-3a Simple Structure 337
- 11-3b Functional Structure 337
- 11-3c Multidivisional Structure 337
- 11-3d Matches between Business-Level Strategies and the Functional Structure 338
  - Using the Functional Structure to Implement the Cost Leadership Strategy 339
  - Using the Functional Structure to Implement the Differentiation Strategy 340
  - Using the Functional Structure to Implement the Integrated Cost Leadership/Differentiation Strategy 341
- 11-3e Matches between Corporate-Level Strategies and the Multidivisional Structure 341
  - Using the Cooperative Form of the Multidivisional Structure to Implement the Related Constrained Strategy 342
  - Using the Strategic Business Unit Form of the Multidivisional Structure to Implement the Related Linked Strategy 344
  - Strategic Focus:** *A Change in Corporate Strategy Requires a Change in the Corporate Organizational Structure* 345
  - Using the Competitive Form of the Multidivisional Structure to Implement the Unrelated Diversification Strategy 347
- 11-3f Matches between International Strategies and Worldwide Structure 349
  - Using the Worldwide Geographic Area Structure to Implement the Multidomestic Strategy 349
  - Using the Worldwide Product Divisional Structure to Implement the Global Strategy 350
  - Using the Combination Structure to Implement the Transnational Strategy 352
- 11-3g Matches between Cooperative Strategies and Network Structures 353
  - Strategic Focus:** *Unilever Cooperates with Many Firms and Nonprofit Organizations to Implement Its Strategy While Creating a More Sustainable Environment* 354
- 11-4 Implementing Business-Level Cooperative Strategies 356
- 11-5 Implementing Corporate-Level Cooperative Strategies 357
- 11-6 Implementing International Cooperative Strategies 358
- Summary 359 • Review Questions 359 • Experiential Exercises 360 • Video Case 361 • Notes 361



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## 12: Strategic Leadership 368

### Opening Case: A Change at the Top at Procter & Gamble (P&G): An Indication of How Much the CEO Matters? 369

- 12-1 Strategic Leadership and Style 371
  - Strategic Focus:** *The Life of a CEO as a Firm's Primary Strategic Leader: Breadth, Depth, and Complexity* 373
- 12-2 The Role of Top-Level Managers 374
- 12-2a Top Management Teams 374
  - Top Management Teams, Firm Performance, and Strategic Change 375
  - The CEO and Top Management Team Power 376
- 12-3 Managerial Succession 378
- 12-4 Key Strategic Leadership Actions 380
- 12-4a Determining Strategic Direction 380
  - Strategic Focus:** *Keeping Quality People at the Top of The Firm's Leadership Structure: The Importance of Planning for Managerial Succession* 381



12-4b Effectively Managing the Firm’s Resource Portfolio	383
Exploiting and Maintaining Core Competencies	383
Developing Human Capital and Social Capital	384
12-4c Sustaining an Effective Organizational Culture	386
Entrepreneurial Mind-Set	386
Changing the Organizational Culture and Restructuring	387
12-4d Emphasizing Ethical Practices	387
12-4e Establishing Balanced Organizational Controls	388
The Balanced Scorecard	388
Summary	390
• Review Questions	391
• Experiential Exercises	391
• Video Case	392
• Notes	393

## 13: Strategic Entrepreneurship 398

### Opening Case: Innovation’s Importance to Competitive Success 399

13-1 Entrepreneurship and Entrepreneurial Opportunities	401
13-2 Innovation	401
13-3 Entrepreneurs	402
13-4 International Entrepreneurship	403
13-5 Internal Innovation	404
13-5a Incremental and Radical Innovation	405
13-5b Autonomous Strategic Behavior	407
13-5c Induced Strategic Behavior	407
13-6 Implementing Internal Innovations	408
13-6a Cross-Functional Product Development Teams	408
13-6b Facilitating Integration and Innovation	409
13-6c Creating Value from Internal Innovation	409
13-7 Innovation through Cooperative Strategies	410
<b>Strategic Focus:</b> <i>An Innovation Failure at JC Penney: Its Causes and Consequences</i>	411
13-8 Innovation through Acquisitions	412
13-9 Creating Value through Strategic Entrepreneurship	413
<b>Strategic Focus:</b> <i>Pursuing Competitive Success by Using Strategic Entrepreneurship</i>	414
Summary	415
• Review Questions	416
• Experiential Exercises	416
• Video Case	417
• Notes	418



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## Part 4: Cases

Preparing an Effective Case Analysis	iv
CASE 1: Ally Bank	1
CASE 2: AstraZeneca: Transforming How New Medicines Flow to Patients	16
CASE 3: Avon	30
CASE 4: Black Canyon Coffee	43
CASE 5: Blue Nile, Inc.: “Stuck in the Middle” of the Diamond Engagement Ring Market	54
CASE 6: Campbell: Is the Soup Still Simmering?	64
CASE 7: Chick-fil-A: Bird of a Different Feather	75

CASE 8: Chipotle: Mexican Grill, Inc.: Food with Integrity	84
CASE 9: Columbia Sportswear	93
CASE 10: Finding Community Solutions From Common Ground: A New Model to End Homelessness	111
CASE 11: Equal Exchange: Doing Well by Doing Good	119
CASE 12: Facebook	133
CASE 13: Glencore, Xstrata and the Restructuring of the Global Copper Mining Industry in 2012	146
CASE 14: Harley-Davidson: Strategic Competitiveness that Spans Decades	176
CASE 15: Herman Miller: An On-Going Case of Reinvention and Renewal	194
CASE 16: Itaipu Binacional	208
CASE 17: Will J. C. Penney Strike Gold with Its New Strategy?	217
CASE 18: KIPP Houston Public Schools	232
CASE 19: Krispy Kreme Doughnuts: Refilling the Hole in a Sweet Strategy	247
CASE 20: Lockheed Martin	259
CASE 21: Logitech: Finding Success through Innovation and Acquisition	272
CASE 22: lululemon athletica Inc.	283
CASE 23: The Movie Exhibition Industry 2013	295
CASE 24: Phase Separation Solutions (PS2): The China Question	310
CASE 25: Research in Motion	323
CASE 26: Sirius XM Radio Canada	343
CASE 27: Tata Motors Limited: Ratan's Next Step	354
CASE 28: Principled Entrepreneurship and Shared Leadership: The Case of TEOCO [The Employee Owned Company]	361
CASE 29: Tesla Motors: Charging into the Future?	381
CASE 30: Yahoo! Inc.: Marissa Mayer's Challenge	396
Name Index	I-1
Company Index	I-17
Subject Index	I-21

# Preface

Our goal in writing each edition of this book is to present a new, up-to-date standard for explaining the strategic management process. To reach this goal with the 11th edition of our market-leading text, we again present you with an intellectually rich yet thoroughly practical analysis of strategic management.

With each new edition, we are challenged and invigorated by the goal of maintaining the standard that we established for presenting strategic management knowledge in a readable style. To prepare for each new edition, we carefully study the most recent academic research to ensure that the strategic management content we present to you is highly current and relevant. In addition, we continuously read articles appearing in many different and widely read business publications (e.g., *Wall Street Journal*, *Bloomberg Businessweek*, *Fortune*, *Financial Times*, *Fast Company*, and *Forbes*, to name a few). We also study postings through social media (such as blogs), given their increasing use as channels of information distribution. By studying a wide array of sources, we are able to identify valuable examples of how companies are using (or not using) the strategic management process. Though many of the hundreds of companies we discuss in the book will be quite familiar, some will likely be new to you. One reason for this is that we use examples of companies from around the world to demonstrate how globalized business has become. To maximize your opportunities to learn as you read and think about how actual companies use strategic management tools, techniques, and concepts (based on the most current research), we emphasize a lively and user-friendly writing style.

Several *characteristics* of this 11th edition of our book will enhance your learning opportunities:

- This book presents you with the most comprehensive and thorough coverage of strategic management that is available on the market.
- The research used in this book is drawn from the “classics” as well as the most recent contributions to the strategic management literature. The historically significant “classic” research provides the foundation for much of what is known about strategic management, while the most recent contributions reveal insights about how to effectively use strategic management in the complex, global business environment in which firms now compete. Our book also presents you with many up-to-date examples of how firms use the strategic management tools, techniques, and concepts developed by leading researchers. Indeed, although this book is grounded in relevant theory and current research, it also is strongly application-oriented and presents you, our readers, with a vast number of examples and applications of strategic management concepts, techniques, and tools. In this edition, for example, we examine more than 500 companies to describe the use of strategic management. Collectively, no other strategic management book presents you with the *combination* of useful and insightful *research* and *applications* in a wide variety of organizations as does this text.

Company examples range from the large U.S.-based firms such as Apple, Amazon.com, Boeing, Starbucks, Walmart, Walt Disney, General Electric, Dell, Campbell Soup, Coca-Cola, Hewlett-Packard, Ford, United Parcel Service, JPMorgan Chase, and Merck, to major foreign-based firms such as Carrefour, Nestlé, Ericsson, Nokia, Virgin Group,

Tokyo Electric Power, Rio Tinto, CEMEX, Cadbury, IKEA, FEMSA, Takeda, Publicis, Sany Heavy Equipment, Hutchison Whampoa, and Zara. As this list suggests, the firms examined in this book compete in a wide range of industries and produce a diverse set of goods and services.

- We use the ideas of prominent scholars (e.g., Ron Adner, Rajshree Agarwal, Gautam Ahuja, Raffi Amit, Africa Arino, Jay Barney, Paul Beamish, Peter Buckley, Ming-Jer Chen, Russ Coff, Rich D'Aveni, Kathy Eisenhardt, Gerry George, Javier Gimeno, Luis Gomez-Mejia, Melissa Graebner, Ranjay Gulati, Don Hambrick, Connie Helfat, Amy Hillman, Tomas Hult, Dave Ketchen, Dovev Lavie, Michael Lennox, , Yadong Luo, Shige Makino, Costas Markides, Danny Miller, Will Mitchell, Margie Peteraf, Michael Porter, Nandini Rajagopalan, Jeff Reuer, Joan Ricart, Alan Rugman, Richard Rumelt, David Sirmon, Ken Smith, Steve Tallman, David Teece, Michael Tushman, Margarethe Wiersema, Oliver Williamson, Mike Wright, Anthea Zhang, and Ed Zajac) to shape the discussion of *what* strategic management is. We describe the practices of prominent executives and practitioners (e.g., Michael Corbat, Jamie Dimon, Carlos Ghosn, Heinrich Hiesinger, Marilyn Hewson, Jeff Immelt, Elon Musk, Paul Pullman, and many others) to help us describe *how* strategic management is used in many types of organizations.

The authors of this book are also active scholars. We conduct research on different strategic management topics. Our interest in doing so is to contribute to the strategic management literature and to better understand how to effectively apply strategic management tools, techniques, and concepts to increase organizational performance. Thus, our own research is integrated in the appropriate chapters along with the research of numerous other scholars, some of whom are noted above.

In addition to our book's *characteristics*, there are some specific *features* and *revisions* that we have made in this 11th edition that we are pleased to highlight for you:

- **New Opening Cases and Strategic Focus Segments.** We continue our tradition of providing all-new Opening Cases and Strategic Focus segments (a few are on the same company[ies] but are substantially updated). Many of these deal with companies located outside North America. In addition, virtually all of the company-specific examples included in each chapter are new or substantially updated. Through all of these venues, we present you with a wealth of examples of how actual organizations, most of which compete internationally as well as in their home markets, use the strategic management process for the purpose of outperforming rivals and increasing their performance.
- **New Strategy Right Now Callouts.** Each chapter contains four Strategy Right Now icons (up from three in the last edition) that direct the student to the CourseMate site. There students can find out how to access the Gale Business Insights: Essentials content. This material includes recent articles covering most of the concepts and companies highlighted in each of the Opening Cases, Strategic Focus segments, and other important areas in the chapter. In addition, online quizzes are associated with all of the BIE content in CengageNow.
- **Thirty All-New Cases** with an effective mix of organizations headquartered or based in the United States and a number of other countries. Many of the cases have full financial data (the analyses of which are in the Case Notes that are available to instructors). These timely cases present active learners with opportunities to apply the strategic management process and understand organizational conditions and contexts and to make appropriate recommendations to deal with critical concerns. These cases can also be found in CengageNow.
- **More than 1000 New References** (2012, 2013) are included in the chapters' endnotes to support new material added or current strategic management concepts used in the

book. In addition to demonstrating the classic and recent research from which we draw our material, these data support the fact that this book references the current cutting-edge research and thinking in the field.

- **New Concepts** were added in several chapters. Examples include executive ambidexterity and ambicultural executives (Chapter 1), the informal economy (Chapter 2), private-public partnerships in strategic alliances such as those found in industrial clusters (Chapter 9), and strategic change (Chapter 12).
- **New Content** was added to several chapters. Examples include the Analysis-Strategy-Performance framework (Chapter 1 and referenced in several other chapters), the importance of emerging economies and influence of emerging economy multinationals (Chapters 1 and 8), the size and scope of the informal economy (Chapter 2), innovators' dilemma (Chapter 4), the use of TQM in cost leadership and differentiation strategies (Chapter 4), and intra-industry diversification (Chapter 6).
- **New Information** was provided in several chapters. Examples include the stakeholder host communities (Chapter 1), all-new and current demographic data (e.g., ethnic mix, geographic distribution) and on the economic environment (Chapter 2), the general partner strategies of private equity firms (Chapter 7), information from the *World Economic Forum Competitiveness Report* regarding political risks of international investments (Chapter 8), examples of industrial clusters or districts of geographic concentrations of a set of interconnected companies and public organizations (Chapter 9), new and updated information on corporate governance in different countries (Chapter 10), discussion of how online retailers are changing the structures of big box retailers (Chapter 11), and updated data about the number of internal and external CEO selections occurring in companies today (Chapter 12).
- **New and Revised Experiential Exercises** are at the end of each chapter to support individuals' efforts to understand the use of the strategic management process. These exercises place active learners in a variety of situations requiring application of some part of the strategic management process.
- **An Exceptional Balance** between current research and up-to-date applications of it in actual organizations. The content has not only the best research documentation but also the largest number of effective real-world examples to help active learners understand the different types of strategies that organizations use to achieve their vision and mission.
- **Access to Harvard Business School (HBS) Cases.** We have developed a set of assignment sheets and AACSB International assessment rubrics to accompany 10 of the best-selling HBS cases. Instructors can customize the text to include these cases ([www.cengage.com/custom/makeityours/hitt11e](http://www.cengage.com/custom/makeityours/hitt11e)) and utilize the accompanying set of teaching notes and assessment rubrics to formalize assurance of learning efforts in the capstone Strategic Management/Business Policy course. Contact your Cengage Learning representative for more information.

## Supplements to Accompany This Text

**Instructor Web site.** Access important teaching resources on this companion Web site. For your convenience, you can download electronic versions of the instructor supplements from the password-protected section of the site, including Instructor's Resource Manual, Comprehensive Case Notes, Cognero Testing, Word Test Bank files, PowerPoint® slides, and Video Segments and Guide. To access these additional course materials and companion resources, please visit [www.cengagebrain.com](http://www.cengagebrain.com). On the [Cengagebrain.com](http://www.cengagebrain.com) homepage, use the search box at the top of the page to search for the ISBN of your title (from the back



cover of your book). This will take you to the product page where free companion resources can be found.

- **Instructor’s Resource Manual.** The Instructor’s Resource Manual, organized around each chapter’s knowledge objectives, includes teaching ideas for each chapter and how to reinforce essential principles with extra examples. This support product includes lecture outlines, detailed answers to end-of-chapter review questions, instructions for using each chapter’s experiential exercises and video cases, and additional assignments.
- **Case Notes.** These notes include directed assignments, financial analyses, and thorough discussion and exposition of issues in the case. Select cases also have assessment rubrics tied to National Standards (AACSB outcomes) that can be used for grading each case. The Case Notes provide consistent and thorough support for instructors, following the method espoused by the author team for preparing an effective case analysis.
- **Cengage Learning Testing Powered by Cognero.** This is a flexible, online system that allows you to author, edit, and manage test bank content from multiple Cengage Learning solutions; create multiple test versions in an instant; and deliver tests from your LMS, your classroom, or wherever you want. Cengage Learning Testing Powered by Cognero works on any operating system or browser, no special installs or downloads needed. You can create tests from school, home, the coffee shop—anywhere with Internet access and enhanced, test bank questions are linked to each chapter’s knowledge objectives and are ranked by difficulty and question type. We provide an ample number of application questions throughout, and we have also retained scenario-based questions as a means of adding in-depth problem-solving questions. The questions are also tagged to National Standards (AACSB outcomes), Bloom’s Taxonomy, and the Dierdorff/Rubin metrics.
- **PowerPoints®.** An all-new PowerPoint presentation, created for the 11th edition, provides support for lectures, emphasizing key concepts, key terms, and instructive graphics.
- **Video Segments.** A collection of 13 BBC videos have been included in the end-of-chapter material. These new videos are short, compelling, and timely illustrations of today’s management world. Topics include Brazil’s growing global economy, the aftermath of BP’s oil spill, Zappos.com, the Southwest merger with AirTrans, and more. Available on the DVD and Instructor Web site. Detailed case write-ups including questions and suggested answers appear in the Instructor’s Resource Manual and Video Guide.

**CengageNow.** This robust online course management system gives you more control in less time and delivers better student outcomes—NOW. CengageNow includes teaching and learning resources organized around lecturing, creating assignments, casework, quizzing, and gradework to track student progress and performance. The 30 comprehensive cases appear in CengageNow. There are 13 Guided Cases that bring students to a higher level of understanding in preparation for in-class activities. Multiple types of quizzes, including BBC video quizzes and YouTube video quizzes, are assignable and gradable. We also include assignable and gradable Business Insights: Essentials (BIE) quizzes that direct students to Gale articles to find expansive, current event coverage for companies, including a wealth of daily updated articles and company financials. Flexible assignments, automatic grading, and a gradebook option provide more control while saving you valuable time. A Personalized Study diagnostic tool empowers students to master concepts, prepare for exams, and become more involved in class.

**Cengage Learning Write Experience 2.0.** This new technology is the first in higher education to offer students the opportunity to improve their writing and analytical skills

without adding to your workload. Offered through an exclusive agreement with Vantage Learning, creator of the software used for GMAT essay grading, Write Experience evaluates students' answers to a select set of writing assignments for voice, style, format, and originality. We have trained new prompts for this edition!

**The Business Insights: Essentials Resource Center (BIE).** Put a complete business library at your students' fingertips! This premier online business research tool allows you and your students to search thousands of periodicals, journals, references, financial data, industry reports, and more. This powerful research tool saves time for students—whether they are preparing for a presentation or writing a reaction paper. You can use the BIE to quickly and easily assign readings or research projects.

**Micromatic Strategic Management Simulation (for bundles only).** The Micromatic Business Simulation Game allows students to decide their company's mission, goals, policies, and strategies. Student teams make their decisions on a quarter-by-quarter basis, determining price, sales and promotion budgets, operations decisions, and financing requirements. Each decision round requires students to make approximately 100 decisions. Students can play in teams or play alone, compete against other players or the computer, or use Micromatic for practice, tournaments, or assessment. You can control any business simulation element you wish, leaving the rest alone if you desire. Because of the number and type of decisions the student users must make, Micromatic is classified as a medium to complex business simulation game. This helps students understand how the functional areas of a business fit together without being bogged down in needless detail and provides students with an excellent capstone experience in decision making.

**Smartsims (for bundles only).** MikesBikes Advanced is a premier strategy simulation, providing students with the unique opportunity to evaluate, plan, and implement strategy as they manage their own company while competing online against other students within their course. Students from the management team of a bicycle manufacturing company make all the key functional decisions involving price, marketing, distribution, finance, operations, HR, and R&D. They formulate a comprehensive strategy, starting with their existing product, and then adapt the strategy as they develop new products for emerging markets. Through the Smartsims easy-to-use interface, students are taught the cross-functional disciplines of business and how the development and implementation of strategy involves these disciplines. The competitive nature of MikesBikes encourages involvement and learning in a way that no other teaching methodology can, and your students will have fun in the process!

**MindTap.** MindTap is a fully online digital learning platform of authoritative Cengage Learning content, assignments, and services that engages your students with interactivity while also offering you choice in the configuration of coursework and enhancement of the curriculum via complimentary Web apps known as MindApps. MindApps range from ReadSpeaker (which reads the text out loud to students), to Kaltura (allowing you to insert inline video and audio into your curriculum), to ConnectYard (allowing you to create digital “yards” through social media—all without “friending” your students). This is well beyond an eBook, a homework solution or digital supplement, a resource center website, a course delivery platform or a Learning Management System. It is the first in a new category—the Personal Learning Experience.

## Make It Yours—Custom Case Selection

Cengage Learning is dedicated to making the educational experience unique for all learners by creating custom materials that best suit your course needs. With our Make It Yours program, you can easily select a unique set of cases for your course from providers such as Harvard Business School Publishing, Darden, and Ivey. See <http://www.custom.cengage.com/makeityours/hitt11e> for more details.

## Acknowledgments

We express our appreciation for the excellent support received from our editorial and production team at Cengage Learning. We especially wish to thank Scott Person, our Senior Product Manager; and Julia Chase, our Senior Content Developer. We are grateful for their dedication, commitment, and outstanding contributions to the development and publication of this book and its package of support materials.

We are highly indebted to all of the reviewers of past editions. Their comments have provided much insight in the preparation of this current edition:

Jay Azriel <i>York College of Pennsylvania</i>	Irem Demirkan <i>Northeastern University</i>	James Katzenstein <i>California State University, Dominguez Hills</i>
Lana Belousova <i>Suffolk University</i>	Dev Dutta <i>University of New Hampshire</i>	Robert Keidel <i>Drexel University</i>
Ruben Boling <i>North Georgia University</i>	Scott Elston <i>Iowa State University</i>	Nancy E. Landrum <i>University of Arkansas at Little Rock</i>
Matthias Bollmus <i>Carroll University</i>	Harold Fraser <i>California State University, Fullerton</i>	Mina Lee <i>Xavier University</i>
Erich Brockmann <i>University of New Orleans</i>	Robert Goldberg <i>Northeastern University</i>	Patrice Luoma <i>Quinnipiac University</i>
David Cadden <i>Quinnipiac University</i>	Monica Gordillo <i>Iowa State University</i>	Mzamo Mangaliso <i>University of Massachusetts – Amherst</i>
Ken Chadwick <i>Nicholls State University</i>	George Griffin <i>Spring Arbor University</i>	Michele K. Masterfano <i>Drexel University</i>
Bruce H. Charnov <i>Hofstra University</i>	Susan Hansen <i>University of Wisconsin- Platteville</i>	James McClain <i>California State University, Fullerton</i>
Jay Chok <i>USC Marshall</i>	Glenn Hoetker <i>Arizona State University</i>	Jean McGuire <i>Louisiana State University</i>
Peter Clement <i>State University of New York – Delhi</i>	James Hoyt <i>Troy University</i>	John McIntyre <i>Georgia Tech</i>
Terry Coalter <i>Northwest Missouri University</i>	Miriam Huddleston <i>Harford Community College</i>	Rick McPherson <i>University of Washington</i>
James Cordeiro <i>SUNY Brockport</i>	Carol Jacobson <i>Purdue University</i>	
Deborah de Lange <i>Suffolk University</i>		

Karen Middleton <i>Texas A&amp;M–Corpus Christi</i>	William Roering <i>Michigan State University</i>	Edward Ward <i>Saint Cloud State University</i>
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Martina Musteen <i>San Diego State University</i>	Deepak Sethi <i>Old Dominion University</i>	Michael L. Williams <i>Michigan State University</i>
Louise Nemanich <i>Arizona State University</i>	Manisha Singal <i>Virginia Tech</i>	Diana J. Wong-Mingji <i>Eastern Michigan University</i>
Frank Novakowski <i>Davenport University</i>	Warren Stone <i>University of Arkansas at Little Rock</i>	Patricia A. Worsham <i>California State Polytechnic University, Pomona</i>
Consuelo M. Ramirez <i>University of Texas at San Antonio</i>	Elisabeth Teal <i>University of North Georgia</i>	William J. Worthington <i>Baylor University</i>
Barbara Ribbens <i>Western Illinois University</i>	Jill Thomas Jorgensen <i>Lewis and Clark State College</i>	Wilson Zehr <i>Concordia University</i>
Jason Ridge <i>Clemson University</i>	Len J. Trevino <i>Washington State University</i>	

Finally, we are very appreciative of the following people for the time and care that went into preparing the supplements to accompany this edition:

Charlie Cook	Paul Mallette <i>University of West Alabama</i>
Richard H. Lester <i>Texas A&amp;M University</i>	Kristi L. Marshall
Susan Leshnower <i>Midland College</i>	Patricia A. Worsham <i>California State Polytechnic University, Pomona</i>

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Case Title	Manu- facturing	Service	Consumer Goods	Food/ Retail	High Technology	Internet	Transportation/ Communication	International Perspective	Social/ Ethical Issues	Industry Perspective
Ally Bank		•				•				•
AstraZeneca										
Avon			•	•				•	•	
Black Canyon				•				•		
Blue Nile			•	•		•		•		•
Campbell		•		•						
Chick-fil-A		•		•					•	
Chipotle				•						•
Columbia Sportswear	•		•						•	•
Common Ground	•								•	
Equal Exchange		•		•				•	•	•
Facebook					•	•				
Glencore, Xstrata	•							•		•
Harley-Davidson	•		•				•	•		
Herman Miller	•		•	•					•	
Itaipu Binacional	•							•	•	
J.C. Penney			•	•				•		
Kipp Schools		•								
Krispy Kreme	•			•					•	•
Lockheed Martin	•							•	•	•
Logitech	•				•			•		•
lululemon		•		•				•	•	
Movie Exhibition Industry		•								•
Phase Separation	•				•			•	•	•
RIM					•	•		•		
Sirius		•			•	•	•	•		•
Tata Motors	•						•	•		
TEOCO		•			•	•		•	•	
Tesla	•						•			
Yahoo!					•	•				

Case Title	Chapters												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Ally Bank		•			•	•					•		•
AstraZeneca	•	•			•								•
Avon	•			•				•		•			
Black Canyon		•	•	•	•								
Blue Nile		•	•	•	•			•					
Campbell				•	•	•					•	•	
Chick-fil-A	•			•	•								
Chipotle			•	•	•								
Columbia Sportswear		•	•	•	•							•	
Common Ground	•	•										•	•
Equal Exchange	•		•							•		•	•
Facebook	•		•						•			•	•
Glencore, Xstrata	•	•				•	•	•					
Harley-Davidson		•	•	•	•	•	•						
Herman Miller		•	•	•								•	•
Itaipu Binacional							•	•	•			•	•
J.C. Penney		•	•	•	•						•		
Kipp Schools		•	•										•
Krispy Kreme		•	•	•								•	•
Lockheed Martin	•	•				•	•	•				•	
Logitech		•			•	•	•	•					•
Lululemon	•	•	•	•				•					•
Movie Exhibition Industry		•		•	•								
Phase Separation		•				•	•	•			•		•
RIM					•				•			•	•
Sirius						•	•	•			•		•
Tata Motors						•	•	•					
TEOCO								•	•		•	•	•
Tesla		•		•							•		•
Yahoo!	•									•		•	



# 1

## Strategic Management and Strategic Competitiveness

*Studying this chapter should provide you with the strategic management knowledge needed to:*

- 1** Define strategic competitiveness, strategy, competitive advantage, above-average returns, and the strategic management process.
- 2** Describe the competitive landscape and explain how globalization and technological changes shape it.
- 3** Use the industrial organization (I/O) model to explain how firms can earn above-average returns.
- 4** Use the resource-based model to explain how firms can earn above-average returns.
- 5** Describe vision and mission and discuss their value.
- 6** Define stakeholders and describe their ability to influence organizations.
- 7** Describe the work of strategic leaders.
- 8** Explain the strategic management process.





## THE GLOBAL IMPACT OF THE GOLDEN ARCHES



McDonald's has achieved substantial success over the years, which is exemplified by its impact throughout the world. Many people know about and are customers of McDonald's. For example, a recent survey found that 88 percent of people recognize the golden arches and associate them with McDonald's. This is likely because McDonald's touches a lot of people in a year. Each day, about 68 million people eat at a McDonald's, which equates to almost one percent of the world's population. In the United States alone, McDonald's hires approximately one million employees per year. Approximately 12 to 13 percent of all U.S. workers have been employed at McDonald's at one time (including such famous people as actress Sharon Stone, singer, Shania Twain and comedian Jay Leno). Given that McDonald's includes a toy in about 20 percent of its sales, it is the world's largest distributor of toys.

Finally, McDonald's serves about one billion pounds of beef annually in the United States, which requires approximately 5.5 million head of cattle.

McDonald's is larger and has been more successful in the market than its close competitors, Burger King and Wendy's, as well as other large competitors for the fast food customer, such as Subway and Starbucks. It has been estimated that McDonald's has about 17 percent of the limited service restaurants in the United States. Its success against competitors is demonstrated by the results of a recent review of the specialty coffees offered by fast food outlets. McDonald's McCafé was rated higher than the "gourmet" coffees sold by Burger King (a new entrant in this product category), Wendy's, Subway, and 7-Eleven. In fact, McCafé even stole some customers from Starbucks when it was first offered by McDonald's.

McDonald's made a decision early to move into international markets and now one can find the golden arches

in many countries across the world. However, its success has created a company of such size and reach that it is also easy to criticize. For example, in 2012 it created an advertisement that received acclaim because it included farmers and ranchers who supplied the food to McDonald's. The evaluations showed that it was perceived to be authentic. Early responses from the public were positive but over time the tweets became more negative with people voicing criticisms of the company and its food. It especially has been criticized because of its supposed contribution to the obesity problems in the United States.

McDonald's has tried to respond to this criticism and the public's concerns about obesity by offering more healthy food alternatives such as salads, chicken, and fish and by providing the amount of calories in its foods on their packaging. McDonald's now serves more Happy Meals with Chicken McNuggets than with hamburgers.